

# Valuation Analysis of .....Private Limited

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....., 20.....

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**The Board of Directors**

..... Pvt. Ltd

.....  
.....

Ref. No: .....

SEBI Reg. No: INM000011435

**For the Kind Attention of Mr. ....**

Dear Sir,

**Sub: Valuation Analysis of the Equity Shares of ..... Pvt. Ltd for ESOP Grant purpose**

We refer to our letter of engagement dated ....., 20..... for carrying out the valuation analysis of Equity Shares of ..... Pvt. Ltd (here-in-after referred as “Company”). In accordance with the terms of the engagement, we are enclosing our report along with this letter. In attached report, we have summarized our Valuation Analysis of the Equity Shares of the Company as at March 31<sup>th</sup> 20.....together with the description of methodologies used and limitation on our Scope of Work.

This Valuation Analysis is confidential and has been prepared exclusively for the Management of Company. It should not be used, reproduced or circulated to any other person, in whole or in part, without the prior consent of Corporate Professionals Capital Private Limited. Such consent will only be given after full consideration of the circumstance at the time. We are however aware that the conclusion in this report may be used for the purpose of certain statutory disclosures and we provide consent for the same.

Trust the above meets your requirements.

Please feel free to contact us in case you require any additional information or clarifications.

Yours Faithfully,

**For Corporate Professionals Capital Private Limited**

**Chander Sawhney**  
**[Asst. Vice President]**

**Maneesh Srivastava**  
**[Manager]**

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## EXECUTIVE SUMMARY

Company is engaged in manufacturing of pharmaceutical ... and other pharmaceutical packing products .The Company was founded in ..... by ..... who have rich & vast experiences in this particular domain. The Company adapts as ISO 9001-2000 quality management system and has an installed capacity to produce .....Million ..... per day adapting ISO 9001-2000 system of quality management. It supplies to major pharmaceutical companies in India and also exports all over the world.

We have been represented by the management that the Company has established a Scheme of ESOP and pursuant to this, the Company shall be granting ESOP to its employees. Therefore, for determination of perquisite taxable in the hands of the employees who are in receipt of such shares and as required under the provisions of Indian Income Tax Act, 1961, the management needs to ascertain the fair value of the Equity Shares of the Company. In this respect, we as a SEBI Registered (Category I) Merchant Banker have been appointed by the Company to determine the fair value of the equity shares.

It is pertinent to mention that valuation of a business is not an exact science and ultimately depends upon a no. of factors like the past financials, expected financial results, industry scenario, market recognition, market price available on exchange, etc. Though there are multiple valuation methodologies, however based upon the facts of the instant case and taking into consideration the relevant provisions of Indian Income Tax Act, 1961, we have carried out this Valuation Analysis of the Company based on the Comparable Companies Market (CCM) Multiple and Net Asset Value Methodology. It's being represented by the management that the % shares being offered to employees under ESOP scheme are in minority, so the effect of Control Premium has not been taken in account by us in this Valuation Analysis.

***Based on our Analysis of the Company and subject to our comments and caveats as further detailed in this report, we have arrived at the fair value of equity shares of the Company at Rs ..... Millions and the value per equity share having face value of Rs. 10 each at Rs. .... each.***

## PURPOSE OF VALUATION

### ABOUT THE TRANSACTION

Based on the discussions held with the Management and Key Managerial Personnel (KMP's), we understand that the Company in order to retain and reward its employees and to ensure their continuous association with the Company has established a Scheme of ESOP. Further, it is being told to us that pursuant to this Scheme of ESOP, the Company has allotted certain equity shares to its employees. Therefore, for determination of perquisite taxable in the hands of the employees who are in receipt of such shares and as required under the provisions of Indian Income Tax Act, 1961, the management needs to ascertain the fair value of the Equity Shares of the Company.

### SCOPE OF SERVICES

This valuation report has been prepared by **M/s Corporate Professionals Capital Private Limited, SEBI Registered (Category – I), Merchant Banker** to ascertain the Fair Value of Equity Shares of the Company for the determination of value of perquisite taxable in hands of employees, to comply with applicable provisions of Indian Income Tax Act, 1961 and notification issued by CBDT in this respect.

Clause (VI) of Sub-section (2) of Section 17 of the Indian Income Tax Act, 1961 and explanation attached to it provides that value of perquisites include:

*“The value of any specified security or sweat equity shares allotted or transferred, directly or indirectly, by the employer, or former employer, free of cost or at concessional rate to the assessee.”*

**Explanation: For the purposes of this sub-clause:**

- a) **Specified Security** means the securities as defined in clause (h) of section 2 of the Securities Contracts (Regulation) Act, 1956 (42 of 1956) and, where employees stock option has been granted under any plan or scheme thereof, includes the securities offered under such plan or scheme;

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- b) *Sweat Equity shares means equity shares issued by a company to its employees or directors at a discount or for consideration other than cash for providing know-how or making available rights in the nature of intellectual property rights or value additions, by whatever name called;*
- c) ***The value of any specified security or sweat equity shares shall be the fair market value of the specified security or sweat equity shares, as the case may be, on the date on which the option is exercised by the assessee as reduced by the amount actually paid by, or recovered from the assessee in respect of such security or shares;***
- d) *Fair Market value means the value determined in accordance with the method as may be prescribed;*
- ***With reference to Notification no. 94/2009 dated 18.12.2009 issued by CBDT, wherein it is provided that for the purpose of clause (vi) of sub-section (2) of section 17, the fair market value of any specified security or sweat equity share, being an equity share in the Company not listed at any recognized stock exchange, shall be such value of the share in the company as determined by a merchant banker on the specified date.***
- ***Specified Date:-***  
*Specified date means,*
  - (i) *The date of exercising of the option; or*
  - (ii) *Any date earlier than the date of the exercising of the option, not being a date which is more than 180 days earlier than the date of the exercising.*

**Thus, based on the fact that the Company is not listed at any Recognized Stock Exchange, we have been appointed by the Company as a SEBI Registered (Category I) Merchant Banker to determine the fair value of equity shares of Company.**

**SCOPE LIMITATION**

This Valuation Report has been prepared based on the **Net Asset Value** Methodology and **Comparable Company Market (CCM) Multiple** Methodology as per the values appearing in the Management Certified Provisional balance Sheet of the Company as on ....., 20.....

**The valuation exercise was carried out under the following limitations:**

- The Valuation analysis of equity shares is based upon the management certified financial results of the Company for the period ending ..... 20.....provided to us, which is based upon various assumptions made by Company relating to the operations of its business and any change in these assumptions may have an impact on the conclusion of this report.
- Keeping in view that in the instant case the % shares being offered to the employees are in minority, we have not factored in the value of control premium in our Valuation Analysis.
- Our Valuation & Analysis and the conclusions drawn there from are further based on a no. of factors which are largely dependent upon the prevailing business and Industry conditions as on the valuation date and explanations provided by the Management. We presume that the Board of the Company has taken reasonable care to ensure that all relevant information which could have an impact over the Valuation has been duly disclosed & made available to us.
- We have not made an appraisal or independent valuation of any of the assets or liabilities of the Company and have not conducted an audit or due diligence or reviewed/validated the financial data provided by the management.
- The scope of our work has been limited both in terms of the areas of the business and operations which we have reviewed and the extent to which we have reviewed them. There may be matters, other than those noted in this Report, which might be relevant in the context of the transaction and which a wider scope might uncover.

**COMPANY ASSESSMENT**

**..... PRIVATE LIMITED**

**BASIC INFORMATION:**

The Company was incorporated on ..... under the provisions of Companies Act, 1956. The registered office of the Company is situated at ..... The Company is engaged in manufacturing of pharmaceutical ... and other pharmaceutical packing products.

**CAPITAL STRUCTURE**

The Capital Structure of the Company as on ....., 20..... is as under:

**Amount in (Rs Millions)**

| <u>Particulars</u>                              | Latest         |
|---|----------------|
|   | 31 March'20... |
| <b><u>AUTHORIZED</u></b>                        |                |
| ..... Equity shares of Rs 10 each fully paid up | .....          |
| <b><u>ISSUED, SUBSCRIBED AND PAID UP</u></b>    |                |
| ..... Equity shares of Rs 10 each fully paid up | .....          |
| ..... Equity Shares issued under ESOP           | .....          |



**HISTORICAL INCOME STATEMENTS:**

Amount in (Rs. Millions)

| Particulars                                | Audited     |               |               |
|--|-------------|---------------|---------------|
|  | 31.03.20... | 31.03.20..... | 31.03.20..... |
| <b>Business Income</b>                     |             |               |               |
| <b>Other Income</b>                        |             |               |               |
| <b>Total Income</b>                        |             |               |               |
| <b>Expenditure Other Than Depreciation</b> |             |               |               |
| <b>EBTDA</b>                               |             |               |               |
| Depreciation and Amortization              |             |               |               |
| <b>Profit Before Tax</b>                   |             |               |               |
| <b>Less: Minimum Alternate Tax (MAT)</b>   |             |               |               |
| <b>Profit After MAT</b>                    |             |               |               |
| <b>Less: Provision for Tax</b>             |             |               |               |
| Current Tax (MAT Credit)                   |             |               |               |
| Deferred Tax Asset                         |             |               |               |
| Fringe Benefit Tax                         |             |               |               |
| Prior Period Expense                       |             |               |               |
| <b>Profit After Tax</b>                    |             |               |               |

**HISTORICAL BALANCE SHEETS:**

Amount in (Rs Millions)

| Particulars                                | Audited       |              |               |
|--|---------------|--------------|---------------|
|  | 31.03.20..... | 31.03.20.... | 31.03.20..... |
| <b>Sources of Funds</b>                    |               |              |               |
| Equity Share Capital                       |               |              |               |
| Employee Stock Options Outstanding Account |               |              |               |
| Reserve and Surplus                        |               |              |               |
| Secured Loans                              |               |              |               |
| Deferred Tax Liability                     |               |              |               |
| <b>Total</b>                               |               |              |               |
| <b>Application of Funds</b>                |               |              |               |
| Net Fixed Assets                           |               |              |               |
| Investment                                 |               |              |               |
| Deferred Tax Assets (Net)                  |               |              |               |
| Net Current Assets                         |               |              |               |
| Miscellaneous Expenses                     |               |              |               |
| <b>Total</b>                               |               |              |               |

## VALUATION METHODOLOGY, APPROACH AND ANALYSIS

**Notification No. 94/2009 dated 18.12.2009 issued by CBDT states** *that for determination of fair value for perquisites to employees in form of issue of shares transferred/allotted by a company not listed on recognized stock exchange in India, the Fair Value shall be:*

**“Such value of the share in the company as determined by a SEBI Registered (Category-I) Merchant Banker on the specified date.”**

### **METHODOLOGIES CONSIDERED FOR VALUATION:**

- Comparable Company Market Multiple Methodology
- Assets Based Methodology (NAV)

### **COMPARABLE COMPANY MARKET (CCM) MULTIPLE**

Comparable Company Market multiple uses the valuation ratios of a publicly traded company and applies that ratio to the company being valued (after applying appropriate discount). The valuation ratio typically expresses the valuation as a function of a measure of financial performance or Book Value (e.g. Turnover, EBITDA, EBIT, EPS or Book Value). A key benefit of CCM analysis is that the methodology is based on the current market stock price. The current stock price is generally viewed as one of the best valuation metrics because markets are considered somewhat efficient. The difficulty here is in the selection of a comparable company since it is rare to find two or more companies with the same product portfolio, size, capital structure, business strategy, profitability and accounting practices. Whereas no publicly traded company provides an identical match to the operations of a given company, important information can be drawn from the way similar enterprises are valued by public markets.

**For Valuation Analysis of the Company, we have used this methodology, by comparing the Mcap to Sales Multiple vis-a-vis certain companies listed on Recognized Stock Exchanges belonging to the Pharmaceutical Industry-Medium/Small. We have selected the Companies on the basis of the following parameters:-**

1. **Turnover:-** We have considered only those companies, whose turnover is close to Company’s turnover;
2. **Business Model:** - We have considered only those companies which belong to Pharmaceutical Industry – Medium/Small;
3. **Trade Volume:** - Only those companies has been considered, whose shares are frequently traded at National Stock Exchange (NSE) or Bombay Stock Exchange (BSE), we have strictly ignored the low volume Companies.

**After applying the above validations to the broad list of companies, we could find 10 companies that can serve as comparables to ..... Private Limited.**

Amount in (Rs Million)

| PARTICULARS   | MCAP/SALES (TTM) |
|---|------------------|
| ..... Ltd   |                  |
| ..... Ltd   |                  |
| ..... Ltd   |                  |
| ..... Ltd   |                  |
| ..... Ltd   |                  |
| ..... Ltd   |                  |
| ..... Ltd   |                  |
| ..... Ltd   |                  |
| ..... Ltd   |                  |
| ..... Ltd   |                  |
| ..... Ltd   |                  |
| <b>Industry Average</b>   |                  |
| <b>Discount for (Lack of Control &amp; Lack of Marketability)</b> |                  |
| <b>Discounted Industry Average</b>                                |                  |

Source: Capitaline Price- .....

**Note:** - For valuing the Equity Shares of the “Company”, we have used Mcap to Sales Multiple. Under this methodology, the sales for the last four quarters ending ....., 20...has been multiplied with the Discounted Industry Average MCap to Sales i.e. .... as on .....

20..... We have discounted the Industry multiple by ....%. (We have given overall .....% discount for Non Controlling stake and Non Marketability Factor). ***It may be noted that, we did not applied Profitability Multiple as the company has suffered losses and is presently in a transition phase.***

| VALUATION AS PER COMPARABLE COMPANY MARKET MULTIPLE METHODOLOGY |                         |
|---|-------------------------|
| PARTICULARS   | Amount in (Rs Millions) |
| Net Sales for the last 4 quarters ending .....20.....           |                         |
| Discounted Multiple   |                         |
| <b>Value of Company</b>   |                         |
| <b>No. of Shares</b>  |                         |
| <b>Per Share Value (In Rs)</b>                                  |                         |

**ASSETS BASED METHOD:**

Generally, the asset values reflected in book of accounts do not usually include intangible assets enjoyed by the business and are generally not a true indicator of the future distributable cash/profit generating ability of the business which is widely regarded as the true determinant of value of assets for most of the industries. The asset values recorded in books of accounts are also impacted by accounting policies which may be discretionary at times. **However in this valuation analysis, we have computed NAV of the Company, to do sanity check for our CCM valuation and found that the value preposition under CCM is less than NAV (proxy for replacement cost in many cases) so, we have given 100% weight to NAV**

| VALUATION AS PER NET ASSET METHODOLOGY AS ON ..... |                         |
|--|-------------------------|
| PARTICULARS  | Amount in (Rs Millions) |
| Equity Share Capital                               |                         |
| Employee Stock Options Outstanding Account         |                         |
| Reserves & Surplus                                 |                         |
| <b>Value of Company (Net Worth)</b>                |                         |
| <b>No. of Shares</b>                               |                         |
| <b>Per Share Value (In Rs.)</b>                    |                         |

***Based on our Analysis of the Company and subject to our comments and caveats as further detailed in this report, we have arrived at the fair value of equity shares of the Company at ..... Millions and the value per equity share having face value of Rs. 10 each at ..... each***

## CAVEATS

- This Valuation Report has been issued on the specific request of '..... Private Limited' for determining the perquisite taxable in the hands of employees and thus has not factored in the value of Control premium. This Report is prepared exclusively for the above stated purpose and must not be copied, disclosed or circulated or referred to in correspondence or discussion with any other party. Neither this report nor its content may be used for any other purpose without prior written consent of M/s Corporate Professionals Capital Private Limited.
- We have summarized the Valuation Analysis of the Equity shares of the Company based on the information as was provided to us pursuant to the meetings held with the management of Company and other publically available information. We do not assume any responsibility for the accuracy or reliability of such documents on which we have relied upon in forming our opinion. However, we would like to state that in the process of evaluation, nothing has come to our attention to indicate that the information provided was, materially mis-stated or incorrect or would not afford reasonable grounds to believes it is incorrect upon which the report is based.
- We have no present or planned future interest in '..... Private Limited' and the fee for this Valuation analysis is not contingent upon the values reported herein. The Valuation Analysis contained herein is not intended to represent the value at any time other than the date that is specifically stated in this Report.

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- Court Approved Merger & Demerger Valuation and Swap Ratio
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- ESOP Valuation
- Tax Valuation
- Valuation of Business Segments for Spin-off & Restructuring
- FOREX & Overseas Transactions Valuation
- Intangibles Valuation/Valuation for Regulatory Reporting
- Build/Review Financial Models



## Contact Us

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